Agdevco

Agricultural Development
Corporation of Saskatchewan

ANNUAL REPORT 1988

89-04994/

Letter of Transmittal

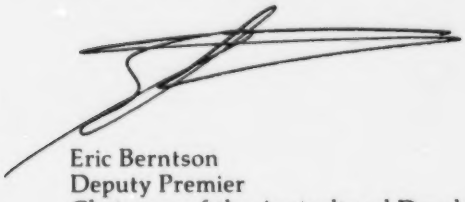
Her Honour
The Honourable Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Agricultural Development Corporation of Saskatchewan for the year ended December 31, 1988 including financial statements for the year duly certified by Price Waterhouse and in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be, Madam,

Your obedient servant,



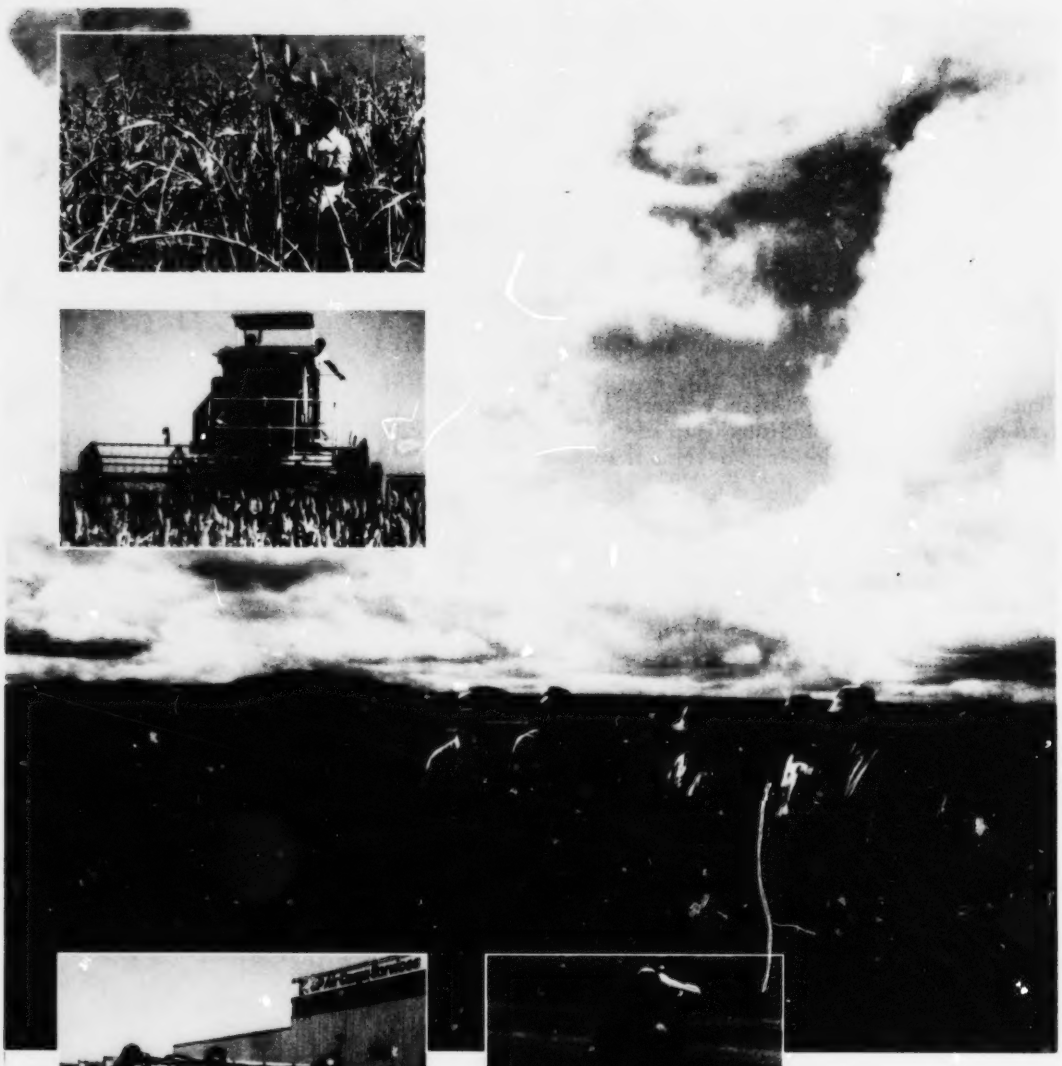
Eric Berntson
Deputy Premier
Chairman of the Agricultural Development
Corporation of Saskatchewan

Chairman of the Board

Honourable Eric Berntson

BOARD OF DIRECTORS

Honourable Eric Berntson, Chairman, Regina
Jack Drew, Vice Chairman, Regina
Ken Alger, Meadow Lake
Jake Willms, Dundurn
Ian Disbery, Corporate Secretary, Regina



President's Report

Agdevco's Trade and International Divisions continued expanding business overseas during 1988.

In 1988, the International Division managed projects in Egypt, Sudan, Lesotho, Zambia, Pakistan and China. The projects in Africa dealt with soil development, water development and indigenous crop development. The Pakistan projects concentrated on soil improvement through drainage while the China project involved dairy farm management and forage development.

During 1988, the International Division commenced implementation of a second drainage project in Pakistan, and prepared for the commencement in early 1989 of a $9 million agricultural machinery procurement project in Tanzania for which Agdevco is the major sub-contractor.

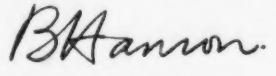
Financially, Agdevco experienced a very difficult year, with disappointing results. Within the International Division activities, although gross revenues increased over previous years, net revenues were less than anticipated due to increased costs and some project schedule delays.

The Corporation's major losses occurred in specialty crops trading during the 1988 drought. In addition, some other trade activities have been slower to develop than planned.

The above factors contributed to a net loss of approximately $1.9 million in 1988.

In late 1988, the Agdevco Board voted to make a major investment in a specialized agro livestock company based in Saskatchewan. The objective is to provide backing for the company to expand production and enable it to take advantage of increasing Canadian and United States market opportunities.

For the future, Agdevco is in a position to capitalize on the long term business base established by the current International Division project contracts, while refining the best opportunities in trade activities. In both areas, maximizing opportunities for Saskatchewan based business remains the priority.



Bruce Hanson
President

International Division

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA) FUNDED PROJECTS

The International Division enjoyed another successful year, managing six agricultural development projects under contract to CIDA. These projects earned gross revenue of $3.9 million in 1988. Project costs were $3.5 million, leaving a gross profit contribution of $0.4 million.

Contracts for management of CIDA projects in Lesotho, Zambia, Sudan, Egypt, and China continued. Agdevco also became the major subcontractor to a new CIDA financed project in Tanzania during the year, with implementation to commence in 1989.

Agdevco's management of these international projects continues to bring direct economic benefits to Saskatchewan based businesses and people. For example, Agdevco procures equipment and services mainly from Saskatchewan suppliers, enhancing opportunities for offshore sales.

AGDEVCO INTERNATIONAL INC., REGINA, SASKATCHEWAN

This subsidiary entered a joint venture (in 1986) with a local Pakistan firm forming the Crescent/Agdevco Joint Venture which is responsible for implementation of drainage projects in Pakistan, including the World Bank funded Fourth Drainage Project in the Faisalabad Region. This project has experienced several problems primarily due to pipe supply, technical aspects and project management components. Implementation of the project is currently behind schedule but is improving.

In 1988 the joint venture was a successful bidder on the Asian Development Bank funded Dera Ismail Khan Drainage Project. This project is proceeding as planned.

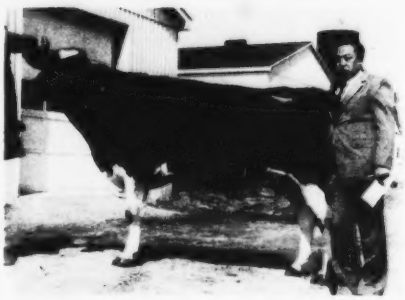
These two projects will provide the bulk of business activities for this subsidiary in 1989 and should form the basis for future opportunities.

Trade Division

SPECIALTY CROPS

The exceptional drought conditions experienced in 1988 created shortfalls in specialty crop production delivered by farmers to Agdevco under contract. This situation forced Agdevco to take appropriate action to meet commitments, resulting in a major loss to the Corporation.

LIVESTOCK



Agdevco concentrated on consolidating its Western European markets in 1988 with deliveries to Austria and the United Kingdom. The sales for 1989 look promising. Agdevco's anticipated shipment of cattle to China scheduled for 1988 did not occur due to delays by other parties, and is rescheduled for 1989.

TEXTILES

Agdevco imported finished garments from Yugoslavia and elsewhere for a total revenue of approximately $2.5 million in 1988. We expect to increase this revenue in 1989. This product grouping is now profitable, and Agdevco is exploring the next phase of establishing textile based countertrade arrangements that could include livestock and agricultural machinery exports.

FOOD

This area of activity developed slowly in 1988 with sales of food products sourced in China and Yugoslavia. The Corporation is currently pursuing some significant trade opportunities which hold promise for 1989.

AGRICULTURAL MACHINERY

During 1988, in a joint effort with Saskatchewan machinery manufacturers, Agdevco shipped machines and other component parts to Hungary and elsewhere. If tests in Hungary are successful, significant sales and co-operative ventures in the Hungarian market are expected for Saskatchewan based agricultural machinery manufacturers.

AGDEVCO HANDELSGESELLSCHAFT m.b.H., VIENNA, AUSTRIA

The Vienna based subsidiary has been in operation for over a year and its marketing efforts show results in the textiles, food, and agricultural machinery activities of the Corporation.

Auditors' Report

To the Members of the Legislative
Assembly of Saskatchewan

We have examined the consolidated statement of financial position of Agricultural Development Corporation of Saskatchewan as at December 31, 1988 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

Regina, Saskatchewan
February 7, 1989

Agricultural Development Corporation of Saskatchewan
Consolidated Statement of Financial Position

	December 31	
	1988	1987
ASSETS		
Current assets:		
Cash and short-term deposits	$ 10,928	$ 586,129
Accounts receivable (Note 3)	2,951,205	1,382,598
Inventory	473,234	31,584
Prepaid expenses	9,305	16,829
	3,444,672	2,017,140
Fixed assets (Note 4)	104,194	178,415
	$3,548,866	$2,195,555
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities:		
Bank indebtedness	$ 905,486	$ 635,000
Accounts payable — trade	1,807,672	680,096
— other	16,670	14,407
Note payable (Note 6)	3,200,000	1,400,000
Customer deposits	82,948	—
Current portion of long-term debt	17,500	17,500
Advances — international projects (Note 5)	68,339	55,868
	6,098,615	2,802,871
Long-term debt, less current portion (Note 7)	56,875	74,375
Obligations under capital leases, less current portion (Note 8)	10,017	26,936
	6,165,507	2,904,182
Province of Saskatchewan's equity:		
Equity advances (Note 9)	117,473	117,473
Deficit	(2,734,114)	(826,100)
	(2,616,641)	(708,627)
	$3,548,866	$2,195,555

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Consolidated Statement of Operations and Deficit

	Year ended December 31	
	1988	**1987**
Revenue:		
Product sales	$ 5,685,377	$ 3,653,200
Commissions and fees	4,385,903	5,712,288
Investment income	29,011	4,180
Other income	25,877	38,073
	10,126,168	9,407,741
Expenses:		
Cost of product sales and other direct costs (Note 13)	9,939,596	8,591,889
General and administrative	1,818,904	1,579,431
Interest expense	275,682	126,177
	12,034,182	10,297,497
Loss for the year	(1,908,014)	(889,756)
Retained earnings (deficit) at beginning of year	(826,100)	63,656
Deficit at end of year	$(2,734,114)	$ (826,100)

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1988	**1987**
Cash provided by (used in) operating activities:		
Loss for the year	$(1,908,014)	$ (889,756)
Add items not requiring cash —		
Depreciation	56,145	53,943
Gain on disposal of equipment	27,718	(1,774)
	(1,824,151)	(837,587)
Net change in non-cash working capital balances related to operations	(777,475)	287,900
Cash used in operating activities	(2,601,626)	(549,687)
Cash provided by (used in) investment activities:		
Purchase of fixed asssets	(9,642)	(99,329)
Proceeds on disposal of fixed assets	—	3,838
Cash used in investment activities	(9,642)	(95,491)
Cash provided by (used in) financing activities:		
Proceeds of short-term borrowing	1,800,000	1,400,000
Repayment of long-term debt	(17,500)	(17,500)
Repayment of obligations under capital leases	(16,919)	(14,538)
Cash provided by financing activities	1,765,581	1,367,962
Net cash provided (used) during the year	(845,687)	722,784
Cash position at beginning of year	(48,871)	(771,655)
Cash position at end of year	$ (894,558)	$ (48,871)
Cash position is comprised of the following:		
Cash and short-term deposits	$ 10,928	$ 586,129
Bank indebtedness	(905,486)	(635,000)
	$ (894,558)	$ (48,871)

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Notes to Consolidated Financial Statements
December 31, 1988

1. **Summary of accounting policies:**

This summary of significant accounting policies provides a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles —

The consolidated financial statements include the accounts of the corporation's wholly-owned subsidiary, Agdevco International Inc. On July 30, 1987, Agdevco Handelsgesellschaft m.b.H. was incorporated as a wholly-owned subsidiary of Agdevco International Inc. All significant intercompany transactions have been eliminated.

Fixed assets and depreciation —

The fixed assets of the corporation are recorded at cost and are depreciated or amortized on a straight-line basis at the following rates per annum:

Office and other equipment	10% and 12 1/2%
Machinery and equipment	20%
Computer hardware — owned and leased	20%
Leasehold improvements — Regina	20%
Leasehold improvements — Vienna	10%
Computer software	33 1/3%

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposition of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the consolidated statements of operations and deficit.

Translation of foreign currencies —

Items included in these consolidated financial statements denominated in foreign currencies have been translated into Canadian currency using the temporal method of foreign currency translation.

i) Monetary items, at the rate prevailing at the year-end date.

ii) Non-monetary items, at the historical exchange rates.

iii) Revenue and expense items, at the average monthly rate as they are incurred for Agdevco Handelsgesellschaft m.b.H.; and at provisional rates approximating current rates, adjusted periodically throughout the year for the Agricultural Development Corporation of Saskatchewan and Agdevco International Inc.

iv) Depreciation and amortization expenses, at the same exchange rates as the assets to which they relate.

v) Gains or losses resulting from these translation adjustments are included in the determination of earnings.

Inventory —

Inventory is valued at the lower of cost and net realizable value.

Revenue-generating activities —

The corporation enters into the following types of revenue-generating activities:

i) The corporation purchases agricultural products and other products from various producers and suppliers, locates buyers for the products and then enters into sale agreements with the buyers. These transactions are recorded as product sales and cost of product sales in the consolidated statement of operations and deficit.

ii) In other transactions, the corporation acts as agent, arranging for direct sales between buyers and producers. For rendering this service, the corporation earns commissions and only the commissions on these transactions are included in the consolidated statement of operations and deficit.

iii) The corporation provides project services under contract to government agencies and commercial clients. These services include agricultural project management, technical assistance, training and procurement. These transactions are included in the consolidated statement of operations and deficit.

iv) Agdevco International Inc. earns management fees for the management of certain projects.

Income recognition —

Agdevco International Inc. has a 25% interest in Crescent-Agdevco Joint Venture. In accordance with the Crescent-Agdevco Joint Venture Agreement, the completed contract method is used to account for the income of the joint venture. Consequently, cost and progress payments are capitalized and income is recognized only upon completion of the contract. Agdevco International Inc. accounts for the joint venture on the equity basis. Amounts due from the joint venture, totalling approximately $434,130 (1987 - $240,000) are recorded as part of trade accounts receivable.

2. Status of the corporation:

Under the authority of an Order in Council, the Saskatchewan Trading Corporation, established in 1974 pursuant to the provisions of The Crown Corporations Act, was continued as the Agricultural Development Corporation of Saskatchewan effective February 1, 1978. The corporation was reconstituted to provide services which facilitate domestic and export trade in Saskatchewan agricultural products and to serve as an agency in contracting for and managing international development projects.

The financial results of the corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

3. Accounts receivable:

Accounts receivable as at December 31 are comprised as follows —

	1988	1987
Trade accounts receivable	$ 2,775,866	$ 949,134
Other receivables	339,547	433,464
	3,115,413	1,382,598
Less: Allowance for doubtful accounts	164,208	—
	$ 2,951,205	$ 1,382,598

4. Fixed assets:

	1988			1987
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Owned assets —				
Office and other equipment	$ 26,651	$ 9,644	$ 17,007	$ 47,110
Machinery and equipment	1,206	362	844	1,085
Computer software	105,206	84,298	20,908	39,432
Computer hardware	52,377	11,729	40,648	45,390
	185,440	106,033	79,407	133,017
Leasehold improvements—				
Regina	—	—	—	5,118
Vienna	7,659	1,149	6,510	7,276
Leased assets (Note 8) —				
Computer hardware	73,631	55,354	18,277	33,004
	$ 266,730	$ 162,536	$ 104,194	$ 178,415

5. Advances — international projects:

Under the terms of agreements entered into with the Canadian International Development Agency (CIDA) and Saskatchewan Agriculture, the corporation provides personnel to assist in implementing certain international projects sponsored by the agencies.

Under the terms of the agreements, the corporation assumes the responsibility for the procurement of all project inputs of both an operating and a capital nature. Advance funding is normally provided by the agency and the corporation submits project cost reports on a periodic basis. The corporation is fully compensated for the service it provides to the projects including a service fee as an allowance for administrative overhead costs.

6. Note payable:

The note payable to the Department of Finance, the Government of Saskatchewan, bears interest at the rate of 11% and is due on March 31, 1989.

7. Long-term debt:

Long-term debt consists of a loan from the Crown Investments Corporation of Saskatchewan. The loan bears interest at the prime lending rate minus one-quarter percent. Principal repayments of $17,500 are due on July 31 of each year to 1992. In addition, a final repayment of $4,375 is due at maturity on October 31, 1992.

8. **Obligations under capital leases:**

Future minimum capital lease payments and the balance of the obligations each year are as follows —

	1988	1987
Year ended December 31, 1988	$ —	$ 19,474
1989	19,474	19,474
1990	6,534	6,534
1991	3,837	3,837
1992	700	700
Total minimum lease payments	30,545	50,019
Less: Amount representing interest at 12% - 15½%	3,858	8,676
Present value of obligations	26,687	41,343
Less: Amount due in the next year, included in accounts payable	16,670	14,407
Long-term obligations under capital leases	$ 10,017	$ 26,936

9. **Equity advances:**

The advances received from the Crown Investments Corporation of Saskatchewan are intended as a long-term equity capitalization for the corporation. The advances are non-interest bearing with no fixed terms of repayment.

10. **Remuneration of directors:**

During 1988, the corporation's five directors received remuneration of $1,500 (1987 — five directors received $1,225).

11. **Related party transactions:**

Included in these consolidated financial statements are various revenue and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms. Other accounts due to and from related parties and the terms of settlement are described separately in these consolidated financial statements and the notes thereto.

12. **Contingencies:**

The corporation has guaranteed the repayment of a debt by a customer to Saskatchewan Economic Development Corporation to a maximum of $130,000 if the customer defaults. Should this occur, the corporation would have a claim against the assets of the customer.

A former joint venture partner of Agdevco has commenced an action against the corporation. Because of the preliminary stage in the proceedings, potential liability of Agdevco is indeterminable at this time.

13. **Unrealized loss:**

Cost of product sales and other direct costs include an unrealized loss on commodity transactions in the amount of $534,366 which management considers to be unusual in nature.

14. **Commitment:**

The company has made a commitment to invest approximately $2.5 million into an agricultural corporation located in Saskatchewan.